

FDIC State Profile

SUMMER 2003

Arkansas

Employment conditions in Arkansas could be improving.

- Since employment peaked in first quarter 2000, Arkansas lost over 21,000 jobs through the fourth quarter of 2002. However, for the last two quarters beginning the fourth quarter of 2002, employment levels increased by several thousand jobs on a year-over-year basis, suggesting employment conditions may have stabilized (see **Chart 1**). Employment grew at least slightly in many sectors except for manufacturing with the majority of new jobs in business and professional services, and education and health services.
- As with much of the Midsouth, Arkansas continues to suffer from weakness in its manufacturing sector. The manufacturing sector lost over 12,000 jobs during 2002, a thousand less than in 2001. Structural and cyclical weaknesses have resulted in job losses, particularly in the sub-sectors of industrial machinery and equipment, textiles and apparel, lumber and wood products, and paper and allied products. In contrast, the food products sector has maintained relatively stable employment levels for almost a decade.
- The state's retail sector continues to do well, especially Wal-Mart. As a result, economic conditions in the giant retailer's headquarters community, **Fayetteville-Springdale-Rogers**, have been less affected by statewide economic contraction. The Fayetteville economy continues to outperform other metro areas in Arkansas and in the nation, with strong employment growth and unemployment rate well below the state and national averages in first quarter 2003 (see **Table 1**).
- The state's weak economic conditions held income growth to 4.4 percent in 2001, its lowest level since 1999. Rising debt levels, slowing income growth and job losses contributed to a rise in personal bankruptcy filings (see **Chart 2**) with Arkansas ranking 4th in the nation as of fourth quarter 2002. The gap between the per capita bankruptcy filing rate in the state and the nation widened considerably in the past two years.
- Economic weakness and rising healthcare costs were primary contributors to a state budget deficit for 2004 that was projected to be \$150 million in early May. The May passage of a \$20 billion federal aid package for the states may help Arkansas to reach a mandated balanced budget without a tax increase or significant cuts in services or employment.

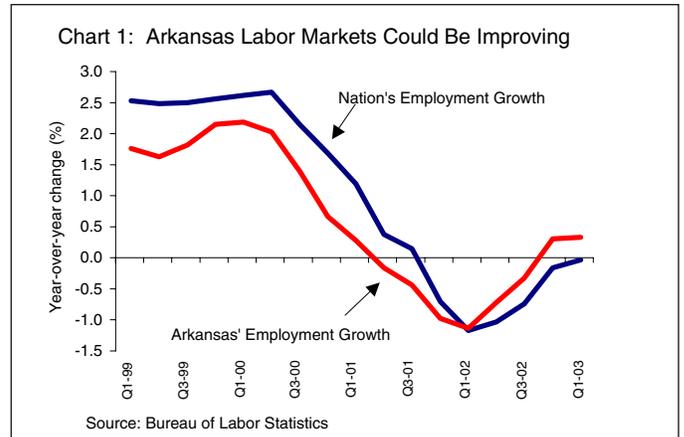
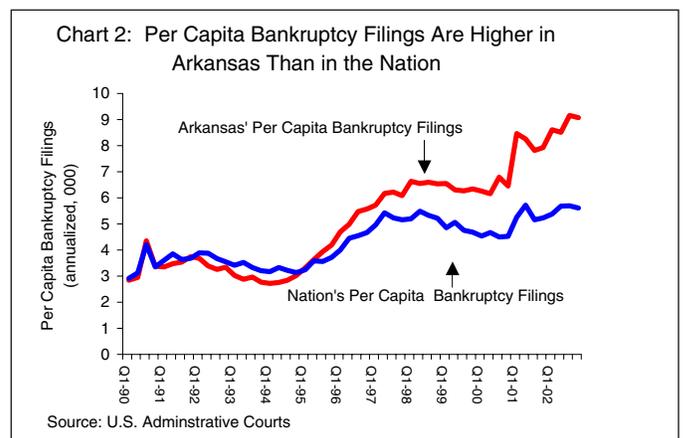


TABLE 1 MOST METRO AREAS HAVE LOWER UNEMPLOYMENT RATES THAN THE STATE

MSA	Q4-02 (%)	Q1-03 (%)
ARKANSAS	5.4	4.9
FAYETTEVILLE	2.2	2.6
FT. SMITH	4.4	5.2
JONESBORO	4.0	4.5
LITTLE ROCK	4.0	4.4
PINE BLUFF	8.0	8.7
TEXARKANA	4.8	5.2

SOURCE: BUREAU OF LABOR STATISTICS



State and local government employment in Arkansas represented 15.6 percent of total employment in first quarter 2003.

Asset quality remains an ongoing concern.

- The median past-due and nonaccrual loan ratio for insured institutions in Arkansas rose by 30 basis points in fourth quarter 2002 to 3.1 percent,¹ following a seasonal pattern that extends back many years; however, the current figure nearly matches the highest quarterly figure observed over the most recent six years.² On-going economic weakness in the state seems likely to result in further increases in the levels of delinquent and nonaccrual loans.
- Additionally, the number of insured institutions with past-due loans at four percent or more of total loans represented over one-third of all banks in Arkansas at year-end 2002, a percentage that appears to have stabilized slightly below the levels reached four quarters after the 1990-91 recession (see **Chart 3**).³

Coverage levels increased at year-end 2002.

- Insured institutions in Arkansas responded to rising delinquencies in 2002 by increasing allowance levels relative to total loans and past-due loans.
- Reserve levels equaled 1.34 percent of total loans in fourth quarter 2002, up from 1.27 percent one year ago. Coverage of nonperforming loans increased to 1.28 times, up from 1.18 during the same timeframe (see **Chart 4**) in spite of rising delinquency rates.

Favorable interest rates and lower provision boost returns.

- Median net interest margins for insured institutions headquartered in Arkansas climbed to 4.18 percent in fourth quarter 2002, up from 3.95 percent one year ago (see **Chart 5**). The improvement is primarily attributed to the wide spread between short- and long- term interest rates. The margin improvement occurred across various institution types and sizes, as well as varied geographic locations. The recent narrowing of spreads is likely to pressure future NIMs.
- Median return on assets (ROA) rose to 1.07 percent in fourth quarter 2002, up from 1.02 percent one year ago. During 2002, lower provisions for

Chart 3: Credit Problems Remain a Concern for Insured Institutions in Arkansas

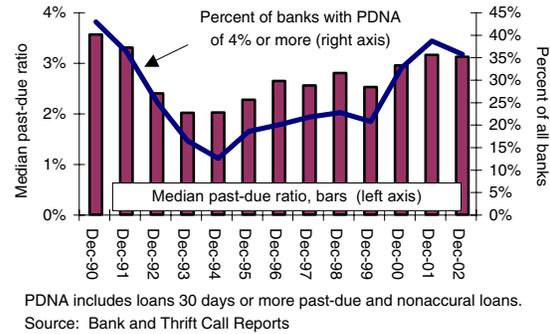


Chart 4: Coverage Levels Slightly Increased Among Insured Institutions in Arkansas

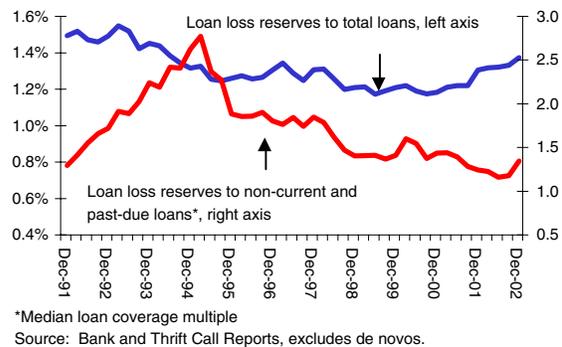
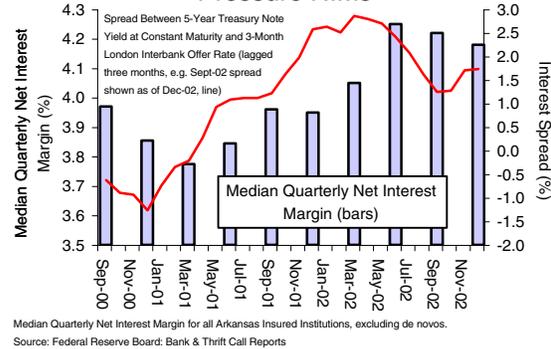


Chart 5: Recent Narrowing of Spreads Could Pressure NIMs



loan losses and improved margins contributed to the improvement in ROAs.

¹ The greatest quarterly increase in median past-due loan ratio occurred in commercial and industrial loans and agricultural loans that changed by 42 and 14 basis points, respectively. In contrast, median past-due levels declined for consumer loans including one to four family mortgages. As a group, institutions that are primarily involved in agriculture had the highest median past-due ratio in fourth quarter 2002 at 4.58 percent

² The median past-due and nonaccrual ratio for insured institutions in Arkansas reached 3.16 percent in fourth quarter 2001.

³ As of March 1992 (four quarters following the end of the 1990-91 recession), 35.5 percent of all insured institutions in Arkansas held past-due loans at four percent or more of total loans. This figure was virtually unchanged at year-end 2002, four quarters following the most recent recession that ended year-end 2001.

State Profile

Arkansas at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	177	187	194	205	214
Total Assets (in thousands)	35,430,329	31,563,692	28,948,888	30,089,532	28,474,792
New Institutions (# < 3 years)	3	6	8	12	10
New Institutions (# < 9 years)	16	18	19	23	24
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.38	9.01	9.16	9.25	9.16
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	3.12%	3.16%	2.95%	2.52%	2.80%
Past-Due and Nonaccrual >= 5%	37	49	34	27	28
ALLL/Total Loans (median %)	1.33%	1.26%	1.15%	1.17%	1.18%
ALLL/Noncurrent Loans (median multiple)	1.30	1.19	1.37	1.37	1.34
Net Loan Losses/Loans (aggregate)	0.50%	0.43%	0.31%	0.27%	0.24%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	8	17	21	19	14
Percent Unprofitable	4.52%	9.09%	10.82%	9.27%	6.54%
Return on Assets (median %)	1.06	0.98	1.03	1.07	1.15
25th Percentile	0.80	0.60	0.64	0.75	0.87
Net Interest Margin (median %)	4.16%	3.87%	4.00%	4.03%	4.09%
Yield on Earning Assets (median)	6.70%	7.80%	8.13%	7.72%	8.04%
Cost of Funding Earning Assets (median)	2.52%	3.95%	4.24%	3.69%	3.90%
Provisions to Avg. Assets (median)	0.33%	0.26%	0.19%	0.19%	0.16%
Noninterest Income to Avg. Assets (median)	0.73%	0.72%	0.68%	0.64%	0.62%
Overhead to Avg. Assets (median)	2.82%	2.82%	2.83%	2.75%	2.69%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	74.05%	76.05%	75.54%	70.23%	67.75%
Loans to Assets (median %)	61.70%	62.99%	63.37%	59.86%	58.91%
Brokered Deposits (# of Institutions)	42	40	50	29	24
Bro. Deps./Assets (median for above inst.)	5.49%	2.80%	3.50%	2.92%	1.55%
Noncore Funding to Assets (median)	24.06%	22.96%	23.10%	21.06%	19.11%
Core Funding to Assets (median)	65.07%	65.58%	65.27%	66.74%	69.60%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	105	111	114	119	127
National	42	40	41	49	52
State Member	22	27	30	27	23
S&L	3	3	3	4	5
Savings Bank	5	6	6	6	7
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	130	17,164,944	73.45%	48.45%	
Little Rock-N Little Rock AR	18	4,964,842	10.17%	14.01%	
Fayetteville-Springdale-Rogers AR	12	7,184,761	6.78%	20.28%	
Ft Smith AR-OK	7	2,980,963	3.95%	8.41%	
Jonesboro AR	5	1,623,663	2.82%	4.58%	
Pine Bluff AR	3	1,271,219	1.69%	3.59%	
Memphis TN-AR-MS	2	239,937	1.13%	0.68%	